

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 22, 2014, BOARD MEETING**

MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

BOARD MEMBERS ABSENT: Kelly Schmidt, State Treasurer

STAFF PRESENT: Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Invt Acct

OTHERS PRESENT: Sam Brindley, BlackRock
Jim Cavanaugh, JP Morgan
Paul Erlendson, Callan Associates
Matt Kraeger, BlackRock
Jan Murtha, Attorney General's Office
Linh Pham, BlackRock
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan
Katy Speer, Public Citizen
Bryan Summers, Callan Associates

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 22, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 22, 2014, MEETING AS DISTRIBUTED.

AYES: COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MS. SMITH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MINUTES:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE JULY 25, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MORTGAGE BACKED SECURITIES:

The Board received presentations on Agency Mortgage Backed Securities strategies from BlackRock and JP Morgan representatives.

The Board recessed at 10:05 a.m. and reconvened at 10:17 a.m.

Staff reviewed their due diligence process in conjunction with Callan Associates and recommended the SIB award the Agency Mortgage Backed Securities mandate to JP Morgan. Staff is basing their recommendation on the strategy's complementary fit with the existing PIMCO MBS mandate in the Pension Trust. JP Morgan will be replacing Western Asset Management's MBS mandate.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND AWARD THE AGENCY MORTGAGE BACKED SECURITIES MANDATE IN THE PENSION TRUST TO JP MORGAN.

AYES: MR. CORNEIL, MR. TRENBEATH, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MS. SMITH, MR. SANDAL, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The SIB is of the understanding that staff will attempt to negotiate a lower fee with JP Morgan other than the proposed 21-22 basis points on the mandate.

ASSET/PERFORMANCE OVERVIEW:

Mr. Hunter provided an update on the SIB client assets. Net investment returns for the year ended June 30, 2014, were realized for the following funds; TFFR (16.5%), PERS (16.4%), WSI (11.7%) Insurance Trust (8.3%), and Legacy Fund (6.6%).

He also provided an update on staffing. Interviews were conducted for the Audit Supervisor vacancy on August 21 and the Investment Analyst interviews will be conducted the early part of September.

Updates were also provided on the following:

The emerging market equity transition to Axiom was completed on August 1, 2014.

Callan Associates custody and fee review results of Northern Trust will be available at the September 26, 2014, meeting.

Staff will continue to review the Private Capital and Global Fixed Income mandates in the 3rd and 4th quarters for efficiencies.

ASSET CLASS DEFINITIONS:

Mr. Hunter provided a summary of asset class definitions as a reference to the Board. The definitions were prepared by staff in conjunction with the PERS Investment Sub-Committee.

SIB AUDIT COMMITTEE MEMBERSHIP:

At the July 25, 2014, meeting, the SIB approved the following membership of the Audit Committee for the period of July 1, 2014 - June 30, 2015; Ms. Becky Dorwart (External Rep.), Mr. Gessner (TFFR Rep.), Mr. Sandal (PERS Rep.), and Ms. Ternes (Elected and Appointed Officials Rep.).

Staff recommended Ms. Karol Riedman, to serve as one of two external representatives on the Committee. Ms. Riedman is currently the Chief Audit Executive for the Office of Internal Audit of the ND Dept. of Health.

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. TERNES TO ACCEPT STAFF RECOMMENDATION AND APPOINT MS. KAROL RIEDMAN TO SERVE ON THE SIB AUDIT COMMITTEE AS AN EXTERNAL REPRESENTATIVE FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015.

AYES: MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY

NAYS: COMMISSIONER GAEBE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

EXECUTIVE REVIEW COMMITTEE:

Executive Review Report - At the SIB's July 25, 2014, meeting, the Board accepted an evaluation plan and timeline for completion of the annual performance review of the Executive Director/CIO. The Board also made revisions to a proposed evaluation survey. Mr. Lech, Chair of the Executive Review Committee, along with Mr. Sandal and Ms. Ternes presented the revised evaluation survey for the SIB's consideration and acceptance.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE REVISED EVALUATION SURVEY PROPOSED BY THE EXECUTIVE REVIEW COMMITTEE TO UTILIZE IN CONDUCTING THE ANNUAL PERFORMANCE REVIEW OF THE ED/CIO.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MONITORING REPORTS:

Pension/Insurance Trust Performance Measurement - Callan representatives reviewed the asset allocation, money manager performance, and consolidated

performance results for the Pension Trust and Insurance Trust for the period ending June 30, 2014. Callan also reviewed the economic and market environment for the same time period.

Watch List - Staff is conducting additional due diligence and monitoring of the following firms; Western Asset Management (MBS mandate), PIMCO (all strategies), and Timberland Investment Resources.

Compliance Reports - Ms. Flanagan reviewed the following compliance reports for FY2014 from the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and Audit and Internal Control (SSAE 16) Reports.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: MR. TRENBEATH, MR. CORNEIL, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The Board recessed at 11:55 a.m. and reconvened at 12:07 p.m.

EDUCATION:

Representatives of Callan Associates presented a Callan College session on Performance Monitoring and Fund Sponsor Trends.

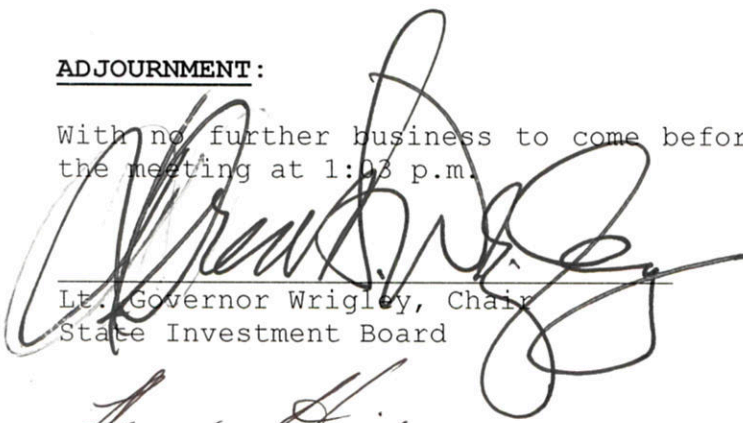
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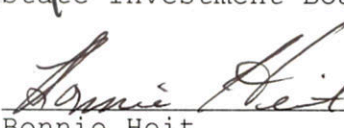
Next SIB Meeting - September 26, 2014, 8:30 a.m. - State Capitol, Peace Garden Room

Next SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:03 p.m.


Lt. Governor Wrigley, Chair
State Investment Board


Bonnie Heit
Assistant to the Board